

City of San José

**THREE YEAR GENERAL FUND
STRUCTURAL DEFICIT
ELIMINATION PLAN
STAKEHOLDER GROUP**

August 18, 2008

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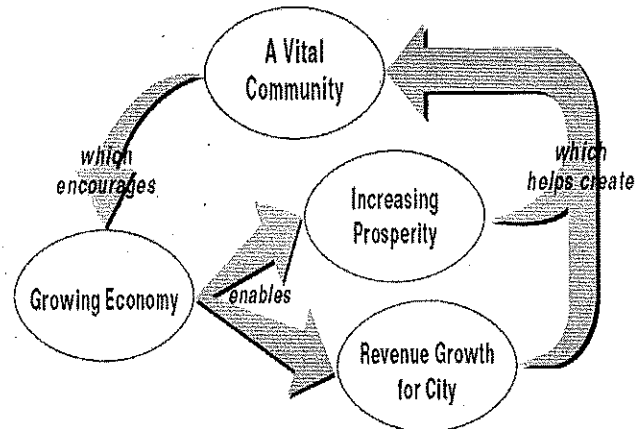
City of San José

**Economic Development
Strategy**

**Paul Krutko
Chief Development Officer**

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Growing Economy is Critical for a Vital Community



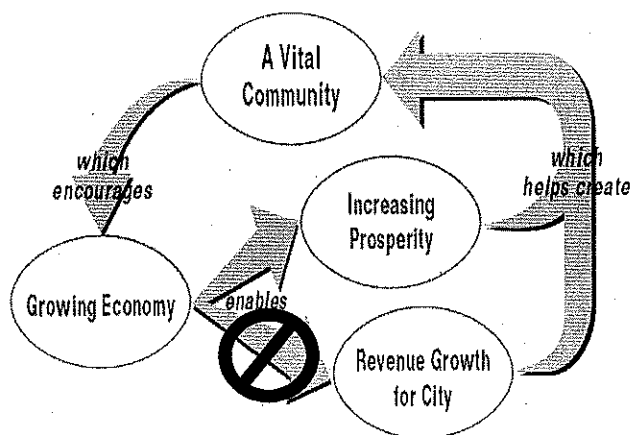
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In Silicon Valley, Growth in Jobs and Companies Comes From

- Expansion of existing businesses
- Start-up of new businesses
- Attraction of outside businesses

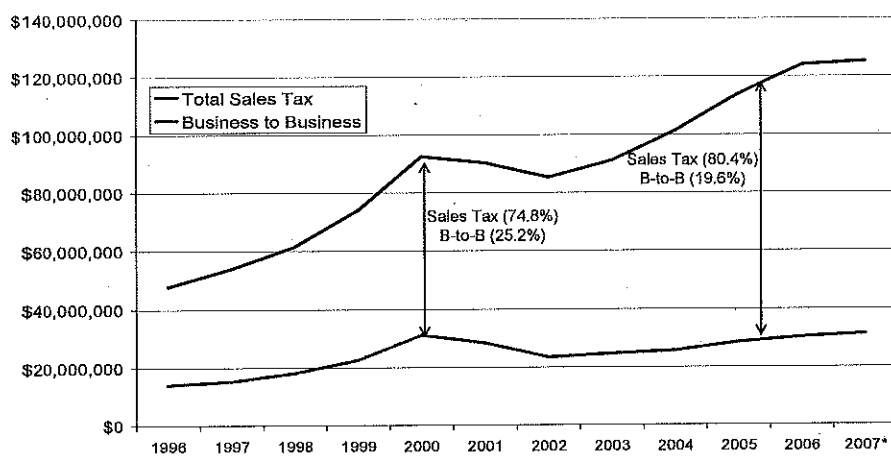
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Industrial-Age Tax Structure Weakens the link Between Economic Growth and City Revenue



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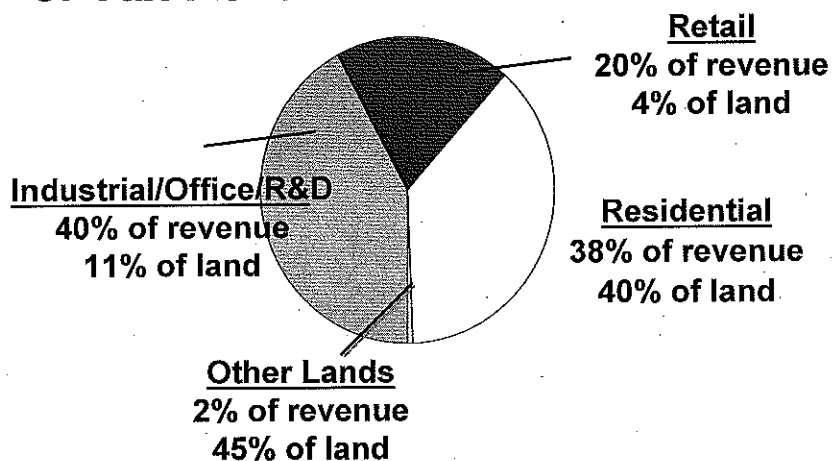
Revenue Impacts of Changing Economy



Examples: Cisco, Cadence Design, Lumileds, Stryker, Ecolab, Tivo, SunPower, Pivot Interiors, Hitachi, KLA Tencor, Sal Acosta Sheet Metal

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Employment & Retail Uses Occupy 15% of SJ Land, but Contribute 60% of Tax Revenue



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Role of Small Business on Economy

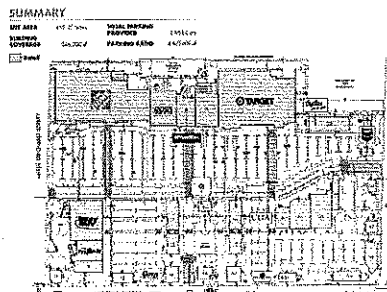
	Small		Medium		Large
	1-9	10-35	36-99	100-999	1000+
Share of Workers	28%	15%	15%	23%	19%
Share of Companies	91%	6%	2%	1%	1%
Number of Workers	84,590	44,180	44,990	70,640	56,400
Number of Companies	39,770	2,550	770	310	20
Total Revenue (Prop, Sales, TOT, UTT)	\$29.6 m	\$30.3 m	\$31.3 m	\$72.1 m	\$33.8 m

Source: Business Tax, GRIP Database

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Highest Revenue Impact: Retail Development

Anchor Retail Facilitation, Shopping Center Expansion,
Auto Row Strategy



The Plant

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Auto Dealers/Large Format Retail Highest Yield Per Acre

1 Acre of Employment Use	Property Tax to City	Sales Tax	Utility Tax	Total
Office Tower- Non Headquarter	\$ 37,499	\$ 5,000	\$ 21,000	\$ 63,499
Campus Industrial Park	\$ 6,375	\$ 18,000	\$ 8,000	\$ 32,375
Single Story Industrial Tilt Up	\$ 1,750	\$ 15,000	\$ 4,000	\$ 20,750
Industrial Use (Auto Dealer)	\$ 1,625	\$ 90,250	\$ 1,250	\$ 93,125
Neighborhood Retail	\$ 1,500	\$ 5,553	\$ 821	\$ 7,873
Big Box Retail	\$ 901	\$ 65,000	\$ 3,000	\$ 68,901

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Retail Development Challenges

- Lack of available sites (4% of land dedicated to retail)
- Policy decisions choosing residential over retail
- Community resistance to large-format tenants
- Limited dedication of resources slows projects through development process
- Only 1% of 8.25% sales tax rate goes to SJ

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High-Impact Revenue "Hit" #2: Manufacturers with Point of Sale



Nanosolar	BD Bioscience
SoloPower	NetGear
Stion	Bay Biodiesel
Critchfield Mechanical	BioFuelBox



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How Local Government Affects the Economy

Role of Local Government	Key Success Factors
#1 Adopts Policies to Shape the Qualities of the Community ...that make it attractive to attract, retain, and develop talent	<ul style="list-style-type: none"> ✓ Variety of quality neighborhoods, range of housing types and prices ✓ Vibrant downtown & commercial centers ✓ Distinctive arts, culture, & entertainment ✓ Outdoor recreation & environment quality ✓ Safety
#2 Determines How Land is Used & Facilities are Developed ...in order to ensure balanced & quality community development	<ul style="list-style-type: none"> ✓ Transparent, inclusive planning and clear land use policies ✓ Timely, predictable permitting process ✓ Land available for development and redevelopment ✓ Adaptability to changing circumstances ✓ Regulations enforced fairly and consistently
#3 Provides Local Infrastructure to Ensure Business Efficiency & Investment	<ul style="list-style-type: none"> ✓ World-accessible airport ✓ Accessible, connected road, public transit, bike, and pedestrian networks ✓ Dependable and cost-effective utilities ✓ Ubiquitous high-speed Internet access

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How Local Government Affects the Economy (Cont'd)

Role of Local Government	Key Success Factors
#4 Spends Money on Capital Projects & Public Services	<ul style="list-style-type: none"> ✓ High level of customer satisfaction ✓ Efficient expenditure of public resources ✓ Investments well maintained over time ✓ Economic stimulus to local community, where appropriate
#5 Supports Development of the Local Workforce ...that is skilled, productive, and able to learn lifelong	<ul style="list-style-type: none"> ✓ Early childhood education ✓ Strong K-12 system ✓ Training/lifelong skill acquisition ✓ Efficient labor market/career progression ✓ Infrastructure for economic participation
#6 Supports Innovation and Entrepreneurship ...creating an environment that supports risk-taking, industry change, and business partnering	<ul style="list-style-type: none"> ✓ Access to R&D assets ✓ Support for business start-up and expansion ✓ Widespread technology adoption ✓ International business linkages ✓ Emerging industries nurtured

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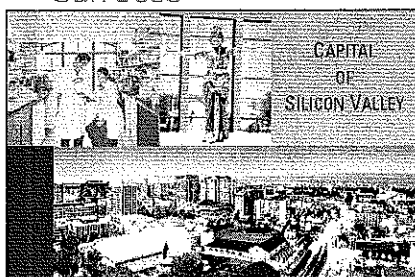
How Local Government Affects the Economy (Cont'd.)

Role of Local Government	Key Success Factors
#7 Establishes Policies to Align Business Behavior with Community Goals ...aligned with community values & goals	<ul style="list-style-type: none"> ✓ Values role of local businesses ✓ Considers impact of public decisions on the economy ✓ Thoughtful and inclusive policy development process ✓ Adopts fair and reasonable policies
#8 Communicates the Community's assets, advantages, and aspirations ...internally & externally	<ul style="list-style-type: none"> ✓ Compelling community identity ✓ Clear, consistent, and honest communication of message
#9 Provides Leadership for Long-Term Economic Success	<ul style="list-style-type: none"> ✓ Shared community vision ✓ Gather, analyze, and report data ✓ Public-private-nonprofit partnerships, regional collaboration ✓ Vigilance about competition ✓ Capture external resources

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Economic Development Strategy

San Jose



PROGRESS HIGHLIGHTS

Economic Development Strategy

Getting Families Back to Work

- Six Vision Themes
- 15 Strategic Initiatives
- 140 Projects

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San Jose's Economic Vision

- ✓ A Global Gateway
- ✓ A Creative Community
- ✓ An Entrepreneurial Environment
- ✓ A Tech-Savvy City
- ✓ A Place of Opportunity
- ✓ World's Most Livable Big City

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Economic Development Strategy

Sales Tax Analysis of Existing Sites		Recent Additions 2007		Pipeline Sites	
Big Box Retailer	\$1,000,000	Big box retailer	\$1,000,000	3 Car Dealers	\$1,000,000
Santana Row	\$2,500,000	The Plant (Curtner)	\$1,125,000	Santana Row Expansion	\$1,000,000
Automobile Row	\$5,000,000	Market Center (Coleman)	\$750,000	Valley Fair Expansion	\$2,500,000
Valley Fair	\$5,000,000	Foxworthy & Meridian	\$150,000	FMC-Airport West	\$180,000
Eastridge	\$2,000,000		\$3,025,000	Palm (HWY 237/ 1st)	\$1,500,000
Oakridge	\$2,500,000			Arcadia (Coleman Site)	\$575,000
Downtown (RDA Core)	<u>\$2,500,000</u>			IBM (Poughkeepsie)	<u>\$475,000</u>
	\$20,500,000				\$7,230,000

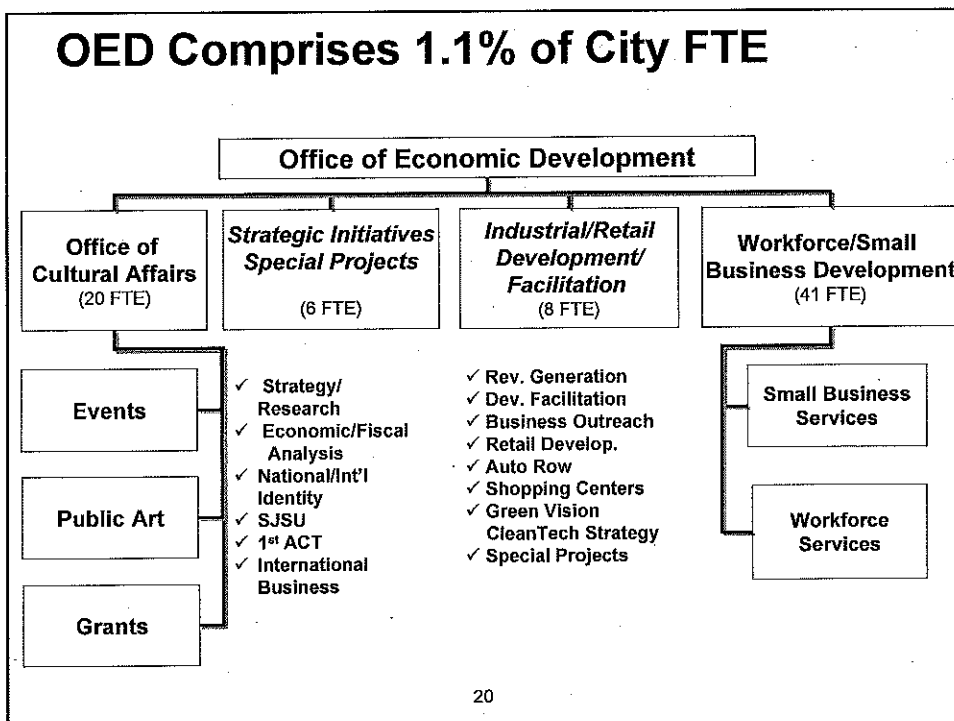
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Citywide Economic Development Function

- Chief Development Officer and 14 professionals
- .08% of GF budget dedicated to revenue generation
- Broad portfolio of directives:
 - Development facilitation
 - Small business support
 - Cost-benefit analysis
 - Downtown Small Wonders
 - Cultural Institutions
 - Workforce development
 - International Business Development
 - Retail development
 - Green Vision
 - Signature events
 - Airport West
 - SJSU
 - Air service attraction

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OED Comprises 1.1% of City FTE



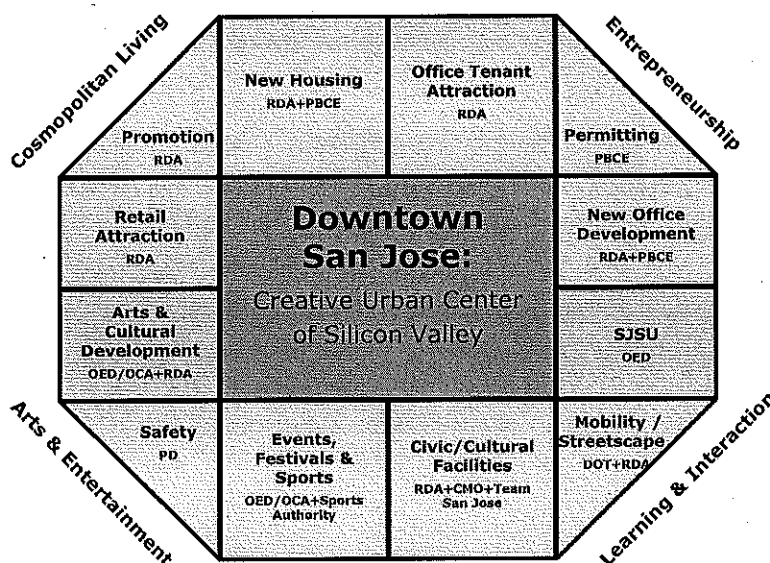
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How to Close a \$25M Budget Shortfall

- Build 5 Valley Fair Malls (250 acres)
- Build 10 Oakridge malls (500 acres)
- Build 10 Santana Rows (400 acres)
- Build 4 Capitol Auto Rows
- 5 Large format retailers equals the same tax generation of all 9 RDA NBD districts combined
- One Santana Row equals the same sales tax generation of the Downtown Core RDA area
- 2 large format retailers equals the same sales tax generation of San Jose's 50 largest sales tax generating restaurants

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One Voice: OED/RDA Collaboration



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City of San José

**Economic Development
Strategy**

Questions and Discussion

Three Year General Fund Structural Deficit
Elimination Plan Presentation

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**Maximizing the
Redevelopment Agency
Contribution to the
General Fund**

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Redevelopment in San Jose



San Jose Redevelopment Agency
August 18, 2008

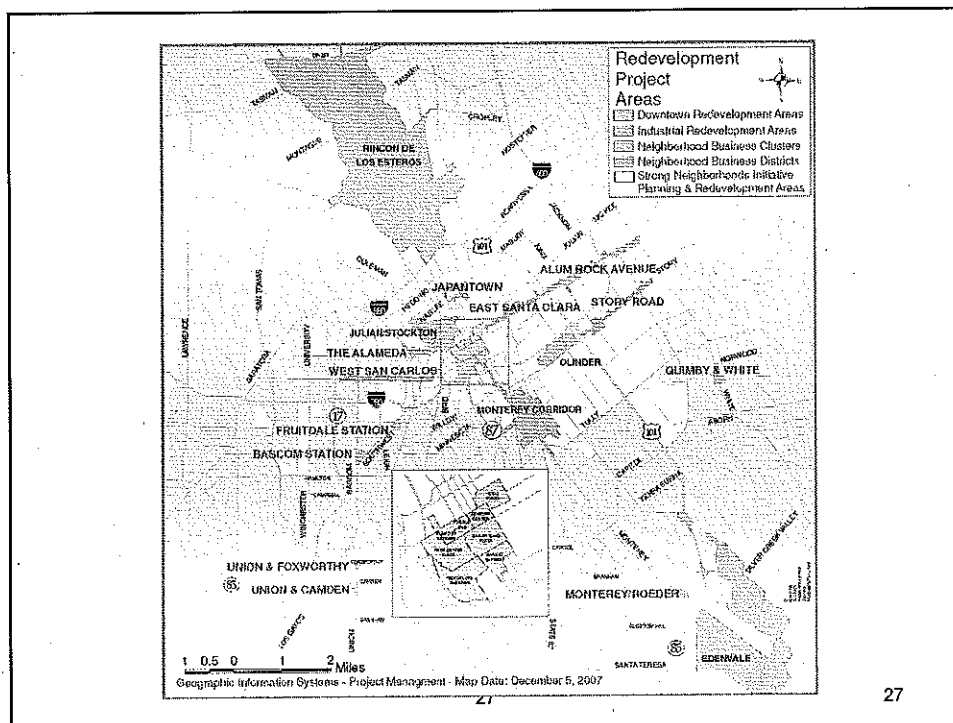
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Redevelopment Fundamentals

- Redevelopment – created by State Law to address physical and economic blight
- Tax Increment Financing is the primary financing vehicle
- Each Project Area is subject to its own Redevelopment Plan
- Because Project Areas are merged financially funds can be “borrowed” from one Area to another

Restrictions on Redevelopment

- Cannot be used for operations or maintenance of City facilities
- Must be used on Projects in or of benefit to a project area
- Cannot be used to pay for City services unless services are directly related to defined Redevelopment purpose

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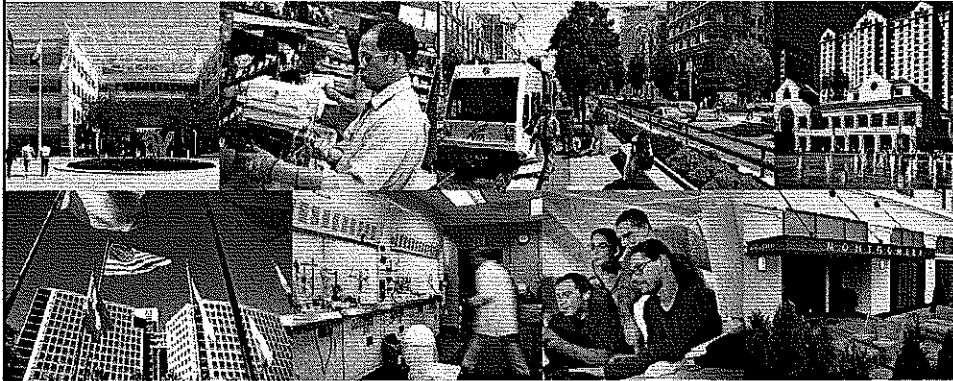
San Jose Redevelopment Agency Core Services

- Create jobs and expand businesses
- Build public facilities and infrastructure
- Strengthen neighborhoods
- Develop housing

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Create Jobs and Expand Business



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Create Jobs and Expand Business

Redevelopment Agency partnerships have created more than 100,000 permanent jobs - 30% of city's total

- North San Jose
 - Vision North San Jose
- Edenvale
 - San Jose BioCenter
 - Clean Energy
- Downtown
 - Adobe Systems
 - Hotels
- Monterey Corridor
 - Manufacturing for high tech supplies

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Build Public Facilities and Infrastructure



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Build Public Facilities and Infrastructure

Generate economic activity and attract visitors

- HP Pavilion
- McEnery Convention Center
- California, Repertory and Jose Theaters
- Guadalupe River Park and Flood Control
- Highway 87; Highway 85
- Martin Luther King Library
- Tech Museum
- Alum Rock Youth Center
- Biblioteca Latinoamericana

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Strengthen Neighborhoods

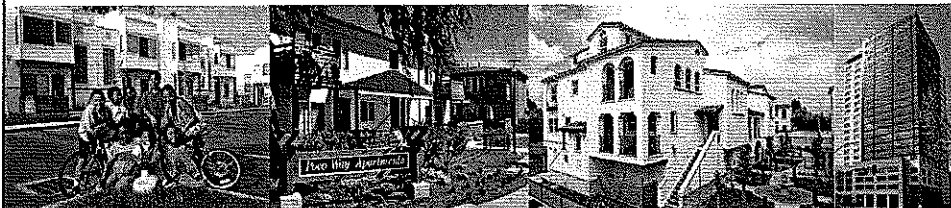
Improve residents' quality of life

- Strong Neighborhoods Initiative
- Neighborhood Business District Program
- Community/youth centers and schools
- Street improvements and traffic safety
- Retail building facade improvements
- New and renovated shopping centers



Develop Housing

- 4,500 units built downtown, 4,600 in NBDs
- Over 12,000 Affordable Units funded with over \$450 million of Agency funds (20% mandated by State Law)
- Childcare Facilities



Specific Examples

Rincon de Los Esteros Redevelopment Area (North San Jose)

- Jobs Created 60,000
- Companies 1,400
- Tax increment \$127.5 million (07/08)



Specific Examples

McEnery Convention Center

- Events hosted 278
- Attendance 642,000
- Room nights 180,000
- Total Impact \$153,000,000 (Direct and Indirect)



Specific Examples

Strong Neighborhoods Initiative

- Agency investment of \$71 million; total public funds of \$747 million; private investment of \$1.7 billion
- 100 new projects provide 5,428 housing units and 1 million sq. ft. commercial
- 50 new community facilities



Specific Examples

Neighborhoods Business Districts

- Sales tax revenue generated of \$5,300,000 (increase of 304%)
- Property tax revenues on new investment \$10.8 million
- Agency and Housing Department investment of \$327 million leveraged \$1.4 million from private sector



Agency Funded City Projects & Positions for FY08-09

	In Millions
• City Improvements	4.4
• Agency funded City Positions (24.5 FTE)	3.4
• Office Spaces & Overhead	2.3
• Mayor and Board	2.1
• Blight and Graffiti Abatement	1.5
• Office Economic Development (50% Cost)	0.9
• Others (Litigation & Auditor Services, etc.)	0.9
• Plus Project Service Memoranda estimated annually	7.6
Total	23.1

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Maximizing the Redevelopment Agency Contribution to the General Fund

Questions and Discussion

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Elimination Plan Presentation

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Discussion

Stakeholder Suggestions regarding San José 'business-friendly' policies

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September 8

Stakeholder Group Meeting

**Core Municipal Services and
Criteria for Identification**

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**Review of Stakeholder
Budget Elimination
Suggestions To-Date**

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**Status of Stakeholder
Requests for Information**

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Discussion and Questions

Three Year General Fund Structural Deficit
Elimination Plan Presentation

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